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Written evidence submitted by Dr Laurence Ferry, Durham University¹ (EST 07)

I welcome this opportunity to submit written evidence to the Procedure Committee's inquiry on Scrutiny of the Government's Supply Estimates. This reply draws on my recent published academic work on budgeting and governance in public services and senior level personal experience of both central government and local government accounting practices. My response takes account of that there has already been written evidence submitted to this inquiry on comparative contexts (Wehner), international best practice (OECD) and pragmatic improvements (Heald). I do not aim to repeat these messages per se, and instead focus more specifically on one main theme and derive a number of points accordingly.

The focus of my response is that supply estimates should not be viewed in isolation as a stand-alone exercise, but are part of at least three interconnected activities for central government budgeting and governance practices i.e. the spending review, budget, and accountability and transparency arrangements. For example, the spending review sets out a planning framework for income and expenditure levels over the medium term as part of multi-year planning (Ferry and Eckersley, 2011). The Conservative government's spending review after 2015, like its forerunners by the Coalition government 2010-2015 and New Labour government 1997-2010, is considered to provide a stable framework within which the government can plan, construct and implement (in other words 'constrain') the annual budget. This veneer of stability espoused by the spending review has afforded an external legitimisation to decision making, whether in a period of growth or recession.

The annual budget enables detailed policy choices with associated financial impacts and implications (Ferry and Eckersley, 2012). The UK government may set its annual budgets within the context of multi-year spending reviews, but yet these can be decoupled and indeed government has been able to announce policies in the annual budget that sit outside and do not breach the spending review framework. This is because the budget can make changes to policy, such as through the use of entitlements and transfer of roles to non-state actors, while remaining within the spending review's boundaries. As such, for the executive the budget process remains an enabler of changing circumstances to balance annual flexibility with

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multi-year stability in public spending. As Heald (2012) notably points out, appropriate scrutiny of supply estimates is important for transparency.

The accountability and audit arrangements afford assurance and confidence in the use of public funds (Ferry and Eckersley, 2015a). While the UK central government has retained its approach to setting annual budgets within the context of multi-year spending reviews, and scrutiny through the Public Accounts Committee hearings on groundwork by the National Audit Office, it has also made significant changes to accountability and audit arrangements for local public bodies in England, such as local government, police, fire and the NHS (Ferry and Murphy, 2015). Indeed, taking local government as an example, the dismantling of institutions such as the Audit Commission and scrapping of performance management frameworks and processes that monitored outputs and outcomes for spending, such as public service agreements and comprehensive area assessments, meant that top-down accountability became focused overwhelmingly on financial conformance rather than organizational performance.

Supplementary reforms that were intended to make up for the reduction in accountability arrangements, such as the requirement to increase the transparency of public administration through on-line publication of all transactions over £500 by local authorities, and thereby enable greater bottom-up accountability with citizens acting as ‘armchair auditors’, have resulted in a performance assessment system that is neither as rigorous nor standardized. The overall result is a weakening of local accountability arrangements (Eckersley, Ferry and Zakaria, 2014; Ferry and Eckersley, 2015a, 2015b; Ferry, Eckersley and Zakaria, 2015). At the same time, to address austerity localism pressures the local authorities have become focussed on budgetary stewardship by holding down input costs. However, the scale of funding cuts means this strategy is unlikely to be successful over the longer term. So, the local authorities need greater freedom to generate revenue in order to facilitate innovation and develop more sustainable business practices and service models (Ferry, Coombs and Eckersley, 2017). In the meantime as they await a promised increase in control over revenue, local authorities have begun to enrol citizens more into governance, delivery and funding of services through consultation processes, and the grassroots have become more vocal in challenging budget decisions (Ahrens and Ferry, 2015).

In addition, during times of uncertainty the central government may also make an emergency budget (Ferry and Eckersley, 2012), and undoubtedly regardless of economic climate the

practices of auditability and risk management now pervades all government activity (Power, 1997, 1999). Together the overall arrangements address governance, financial conformance and performance (Ball, 2012).

From this there can be a number of points made with regards to the public financial management system, and especially for scrutiny of supply estimates in the UK. For instance, in terms of Members debating estimates, the emphasis has been on audit and accountability arrangements at the end of the process with the Public Accounts Committee hearings calling upon National Audit Office work. This has been relatively successful in recent years and somewhat high profile, but is after the event. More emphasis on scrutiny of estimates should also be placed on the front end of the spending review which has been relatively neglected, and indeed the budget were entitlements, transfer of roles to non-state actors and opening doors through secondary legislation can occur. In addition, the impact and implications further down the line at local public bodies and NDPB's for example has to be better understood, and full use should be made of departmental select committees feeding in their views.

Scrutiny requires that Members have appropriate documentation and support from House departments. Given the complexity of some issues around estimates and their technical nature that require expertise and capacity, the delegation of detailed scrutiny of estimates and supplementary estimates to departmental select committees makes sense. It is also important that these select committees are in turn appropriately supported with research capability and capacity, but this is limited and no budget office exists to provide independent analysis for financial scrutiny. The effectiveness of financial scrutiny in international comparisons is rated as weak (Wehner, 2010).

Rules and conventions govern the formal consideration of estimates, but these need not be universally the same between countries. For the UK, the Executive should continue to have overall control of fiscal policy regarding revenue (mainly from taxes) and expenditure (spending) so they can be held accountable for the aggregate position of the economy. It is also important that Her Majesty's Treasury, as the Finance Ministry and guardian of the purse strings, remains strong. However, this should not be to the extent where it becomes overbearing and can dictate to advocates of spending departments policies and priorities in a dictatorial fashion. The private government of public money requires pragmatism and compromise, and has been part of the culture in the UK government (Heclo and Wildavsky,

1974). Further complexity now exists and so it is also important to understand the role of the devolved parliaments and assemblies, and the move to devolution for combined authorities that will not merely be expenditure focussed but will get more control over their revenue streams.

The House's formal procedures for approving estimates and passing supply and appropriation bills limit the power of the House for scrutinising estimates. In particular, this is affected by the rule whereby the House cannot increase estimates and the limited time from presentation of estimates and votes in the House. To improve scrutiny would require reform of procedures and timetables, which would have to be part of any comprehensive overhaul of the system.

The timing and time allocated for the House's consideration of estimates are both important to ensure a robust process. It is common sense that in normal circumstances estimates should be passed before the start of a financial year to help ensure fiscal discipline, and it is a blemish that this does not happen and so the timings should be reconsidered. In addition, it is imperative that checks are in place to ensure time allocated to consider estimates is actually used in that way otherwise it may undermine the scrutiny process.

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